



# CITY OF MOUNTAIN VIEW

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May 29, 2003

Honorable City Council  
City of Mountain View

## FISCAL YEAR 2003-04 PROPOSED OPERATING BUDGET

Honorable Mayor Kasperzak and Members of the Council:

I am pleased to present to you the Proposed Operating Budget for the City of Mountain View for the fiscal year beginning July 1, 2003 and ending June 30, 2004. The Fiscal Year 2003-04 budget document is divided into five sections:

1. Introduction—includes a summary of the City's overall financial plan;
2. Department Budgets—includes operating plans for all City departments;
3. Statistical Section—includes statistical information about the City;
4. Fund Schedules—includes adopted budgets for all funds; and
5. Five-Year Forecast—includes the General Operating Fund revenue and expenditure forecast.

This budget, the budget process and the documents that accompany it have been prepared in accordance with Section 1103 of the City Charter, the State Constitutional limit on the proceeds of taxes and all applicable regulations.

## OVERVIEW

The City is currently facing significant, and quite possibly unprecedented, financial challenges. The General Operating Fund Budget, the primary provider of City services, is experiencing severely constrained finances and is not able to maintain the current level of City services. With the significant decline in General Operating Fund revenues over the past two years, there is no longer sufficient revenue to cover even inflationary increases in General Operating Fund expenditures. With the adoption of the 2003-04 fiscal year budget this June, for the period of July 1, 2003 through June 30, 2004,

the City Council will be required to make difficult choices from a variety of less than desirable alternatives.

While the current financial challenges facing the City are substantial, it is fortunate the potential for a serious economic adjustment was identified in previous years. Techniques such as creation of the Economic Stabilization Contingency and a Budget Transition Reserve have allowed the City's adjustment to financial challenges to be less traumatic than would otherwise be the case and will continue to provide flexibility into the future.

The total City budget for the 2002-03 fiscal year is \$165.2 million and is composed of a number of funds, the largest being the General Operating Fund. General Operating Fund revenues were adopted at \$72.7 million for Fiscal Year 2002-03. At this time, staff is estimating revenues will total \$69.8 million, \$3.0 million or 4.1 percent lower than the adopted budget. Sales Tax, Hotel Tax, Utility Users Tax and Investment Earnings are all currently estimated to fall below budget.

For the 2003-04 fiscal year, General Operating Fund revenues are proposed at \$71.9 million, \$2.1 million or approximately 3.0 percent more than currently estimated for Fiscal Year 2002-03 and \$887,000 or 1.2 percent less than the adopted revenues for Fiscal Year 2002-03.

The Proposed Budget is not only balanced but has a projected positive ending balance of \$2.7 million to serve as the Economic Stabilization Contingency for the 2003-04 fiscal year. At study sessions on April 15 and May 6, 2003, staff presented the strategies and recommendations to balance the Fiscal Year 2003-04 budget.

The State budget deficit is a major concern as we work to adjust to our own General Operating Fund budget challenges. The State's budget for Fiscal Year 2003-04 is facing an estimated shortfall of up to \$38.0 billion. How the State will deal with this issue and how local government revenues will be negatively impacted is not certain at this time.

The Shoreline Golf Links operations (considered part of the General Operating Fund) are slightly less favorable than adopted budget but are generating sufficient revenues for operations.

Significant special funds, Revitalization Authority and Shoreline Regional Park (North Bayshore) Community Funds are generally in good financial condition. The Revitalization Authority Fund has sufficient projected revenues to support a bond issue for the necessary funding of a second parking structure in the downtown area. The Shoreline Regional Park Community continues to generate sufficient tax increment revenues to meet ongoing operations and capital needs; although with the continued

high vacancy rates in commercial/industrial space, property tax increment revenues have declined.

The utility funds are generally in stable financial condition with the exception of the Wastewater Fund. Water rates were incrementally increased by 3.0 percent for the past two years to lessen the need for significant future rate increases. This strategy to incrementally increase rates in order to mitigate larger increases in future years is resulting in staff recommending a 4.0 percent rate adjustment for Fiscal Year 2003-04, much lower than would otherwise be necessary considering the 25.7 percent increase in wholesale water cost from San Francisco Water Department (SFWD). A more significant rate adjustment of 8.0 percent is proposed to reduce the operating deficit in the Wastewater Fund where ongoing revenues are insufficient to meet ongoing expenditures and fund a base level of annual maintenance projects. With the proposal of the City to purchase the recycling and refuse toters to implement new automated recycling and refuse service, a 2.0 percent rate increase is proposed for the Solid Waste Management Fund in lieu of the previously recommended 3 percent increase.

The Proposed Budget continues the City's commitment to infrastructure repair and replacement to the extent possible and includes significant funding for the first year of the Five-Year Capital Improvement Program. This Program includes new projects that are high priorities to the Council and the community. The Proposed Budget also includes the minimal investments necessary for capital outlay and equipment replacement.

Unfortunately, we do not anticipate this will be the last year of difficult economic times. We consider some of the revenue decline to be "structural" in nature and some key revenues such as sales tax will not return to previous levels. We also do not anticipate any potential economic turnaround to be in the immediate future in Silicon Valley. In addition, the City will be seriously challenged over the next few years to meet the costs associated with employee benefits, specifically, and of most concern, costs associated with the Public Employees Retirement System (PERS). Investment losses in the PERS portfolio will dramatically increase City costs over the next two to three years and into the future, especially relating to retirement benefits for Police and Fire safety personnel.

It appears clear that the level of tax revenues received by the General Fund will not be able, in the foreseeable future, to fund all of the services to which the community has become accustomed. General taxes may at best be able to support basic services, and even those, potentially not at current service levels. We need to determine how services can be provided more efficiently, in what cases services can be modified or in what cases some services can be discontinued. Additionally, many services that are focused on specific customers, but may not be part of the City's "core" services, will need to focus on becoming more self-supporting (through new or increased fees and charges).

While many recommendations in this report have negative consequences and most of these reductions are undesirable, they will help assure the long-term financial viability of the City and will help protect fundamental services and infrastructure. This strategy is not based on any "quick fixes" or overly optimistic economic forecasts. It confronts a structural decline in revenue with long-term expenditure reductions. While the City of Mountain View, its City Council and staff will continue to maintain the tradition of quality public services and facilities, we will need to do more prioritization and will not be able to accomplish as many tasks or always perform them in the same manner.

The Fund Schedule Section of this budget presents the City's financial picture in detail. Following this letter are Exhibits 1, 2, 3 and 4, which detail revenues and expenditures for the Fiscal Year 2001-02 (audited actual), Fiscal Year 2002-03 (adopted and estimated) and Fiscal Year 2003-04 (proposed) for the General Operating Fund and other funds.

#### **MAJOR GOALS FOR FISCAL YEAR 2003-04**

The City will be undertaking a wide variety of projects and assignments during the upcoming fiscal year. Even with decreased staff and financial resources, there are important issues and projects to be addressed. The following goals, while only a small portion of the overall workload of the organization, are viewed as the most significant for the 2003-04 fiscal year. These goals are a result of City Council goal-setting study sessions on March 4 and April 22, 2003, were formally adopted by the City Council on May 27, 2003 and reflect City Council priorities for the 2003-04 fiscal year. This list reflects both existing projects/issues that are carrying over into the next fiscal year as well as new topics and projects.

The following is a summary of some of the most significant of these goals and/or goals needing further clarification:

- Water System Master Plan Projects
  - Significant water system master plan projects will continue, including:
    - > Design/initial construction of the Miramonte Reservoir expansion.
    - > Design of the Graham Reservoir (including playing field improvements).
    - > Completion of the Evelyn Avenue/Shoreline Boulevard water supply well.

- Construction of Evelyn Avenue Improvements, Phase III

The third and final phase of the Evelyn Avenue improvements will be constructed between Pioneer Way and Bernardo Avenue, including road widening, sidewalk installation, new traffic signals, drainage and lighting improvements and the removal of overhead utility lines.

- Senior Center Project

The interim Senior Center will be constructed and is expected to open by early fall. The design of the permanent Senior Center will begin shortly and will continue well into the next year. Additionally, staff will be coordinating with the Avenidas organization regarding the design and construction of their new senior day health-care facility.

The design phase of the Senior Center project will include an analysis of the impacts of using "green building" techniques in the construction of the project, including the potential on-site recycling of construction materials.

- Downtown Initiatives

The second phase of the Downtown Precise Plan will be completed with recommended land use plan changes for those areas of the downtown not covered in the first phase of the project, including the "historic core" of the downtown.

Implementation of the downtown retail recruitment strategy will continue.

- California/Bryant Parking Structure

Important progress will be made toward the long-planned parking structure (with retail on the first floor) at the current City-owned parking lot at the corner of California and Bryant Streets. The design of the structure will commence and financing secured via a Revitalization Authority bond.

- Housing Element Implementation Actions

High-priority Housing Element implementation action items will proceed with an emphasis on those efforts most likely to generate progress toward housing goals in the near term.

- Americana Precise Plan/Camino Medical Group Campus

A precise plan amendment/project review will be undertaken for the former Emporium site in the Americana Precise Plan area. A proposed 200,000 square foot medical office building for the Camino Medical Group has been proposed for this site.

- "Mayfield Mall" Precise Plan

The potential redevelopment of the former "Mayfield Mall" Hewlett-Packard campus is likely to require a precise plan review and/or development planning review.

- Strategies for the Development of City-Owned Downtown Properties

The City/Revitalization Authority owns three strategic properties in the downtown area. Work will commence on developing strategies and schedules for the redevelopment of these properties to achieve both financial and land use (downtown redevelopment) goals.

- Pedestrian Overcrossing of U.S. 101 at Permanente Creek

A feasibility analysis will be conducted for the potential construction of a pedestrian/bicycle overcrossing of U.S. 101 at Permanente Creek.

- Budget Follow-Up Actions

There will be a number of important budget follow-up actions required, including careful monitoring of revenue adjustments based on the State budget actions, implementation of service and staffing adjustments and a number of significant cost-of-service (cost recovery) evaluations.

- Charleston East Hotel Site

Depending upon subsequent City Council authorization, staff will explore potential business terms for development of a hotel on the Charleston East site.

- Cuesta Park Annex Master Plan Schedule/Process

A process, schedule and budget for the development of a Cuesta Park Annex Master Plan will be prepared for implementation in a subsequent fiscal year (possibly to be included in the Five-Year Capital Improvement Program).

- Some of the other major goals include:

- Report/study session regarding the City use of pesticides.
- Report/study session regarding community gardens.
- Completion of the Rengstorff Avenue/Caltrain grade separation study.
- Coordination with the Mountain View-Los Altos Union High School District regarding the new Alta Vista campus (former Bryant Avenue water tower site).
- Exploration of the feasibility of bicycle boulevards.
- Continued implementation of mobile home park initiatives.
- Completion of the Environmental Impact Report for Stevens Creek Trail, Reach 4, Segment 2.
- Review of alternatives for development of a "Recreation Plan."
- Review of El Camino Hospital Redevelopment Plan.

As noted above, even with significantly reduced financial and staffing resources, the City Council and staff will be engaging a number of important issues and projects for the upcoming fiscal year.

## BUDGET HIGHLIGHTS

- **General Operating Fund**

General Operating Fund revenues adopted for Fiscal Year 2002-03 total \$72.7 million. Estimated revenues for Fiscal Year 2002-03 total \$69.8 million (\$3.0 million or 4.1 percent lower than the Adopted Budget). This is primarily a result of lower than budgeted Sales Taxes (\$3.5 million), Transient Occupancy Tax (\$569,000) and Utility Users Tax (\$492,000).

General Operating Fund estimated expenditures for Fiscal Year 2002-03 are \$68.2 million or 3.4 percent lower than the Adopted Budget of \$70.6 million. This is primarily a result of salary savings from vacant positions but also reflects the effect of expenditure controls resulting in underexpended budgets for various supplies and services accounts.

Proposed revenues for Fiscal Year 2003-04 are \$71.9 million, 1.2 percent lower than Fiscal Year 2002-03 adopted and 3.0 percent higher than Fiscal Year 2002-03 estimated.

Fiscal Year 2003-04 proposed operating expenditures include the minimum, unavoidable increases for items such as Police overtime and labor contracts. Fiscal Year 2003-04 proposed operating expenditures include significant reductions, including the elimination of Fiscal Year 2002-03 unfunded positions for a total of 42.51 full-time equivalent positions in the General Operating Fund. With these changes, proposed expenditures are \$69.1 million, 2.1 percent lower than Fiscal Year 2002-03 Adopted Budget. The Proposed Budget includes a reservation of revenues totaling \$2.7 million or 3.8 percent of revenues as an Economic Stabilization Contingency.

### **Shoreline Golf Links**

Fiscal Year 2002-03 estimated revenues are \$3.9 million compared to budgeted revenues of \$4.2 million. Estimated expenditures are \$4.1 million (including capital projects of \$320,000 and \$250,000 for recreation programs) compared to the adopted budget of \$4.2 million (including capital projects and recreation programs). Shoreline Golf Links will end Fiscal Year 2002-03 with an estimated balance of \$2.0 million.

For Fiscal Year 2003-04, proposed revenues are \$3.9 million, and proposed expenditures are \$3.8 million (including \$250,000 for recreation programs). This results in revenues exceeding expenditures by approximately \$88,000 and a projected ending balance of \$2.1 million.

- **Special Funds**

### **Revitalization Authority Fund**

Fiscal Year 2002-03 estimated revenues are \$2.7 million, slightly less than budget of \$2.8 million. Estimated expenditures are \$1.9 million, on target with the Adopted Budget. Expenditures include the 20.0 percent Housing Set-Aside based on



property tax receipts in addition to \$3.0 million of capital projects funding for the downtown parking structure. The fund is estimated to end the fiscal year with a balance of \$1.1 million.

Revenues for Fiscal Year 2003-04 are proposed at \$3.1 million, and expenditures are proposed at \$1.9 million. Proposed revenues exceed expenditures by approximately \$1.2 million and is sufficient to fund the debt service necessary for the bond issue in the amount for the parking structure and provide protection against current proposals to shift redevelopment tax increment to the State. The fund is projected to have an ending balance of \$2.2 million.

#### **Shoreline Regional Park (North Bayshore) Community Fund**

For Fiscal Year 2002-03, estimated revenues are \$23.2 million compared to budget of \$21.4 million. This is primarily a result of assessed values driving higher than anticipated property tax revenue. Estimated expenditures are \$16.9 million (including capital projects of \$4.5 million) compared to the Adopted Budget of \$17.0 million (which included capital projects of \$4.4 million). This fund is estimated to end the fiscal year with a balance of \$40.2 million.

For Fiscal Year 2003-04, revenues are proposed at \$22.2 million, and proposed expenditures are \$27.1 million (including capital projects of \$13.2 million). The ending balance for Fiscal Year 2003-04 is projected at \$35.3 million.

#### **Water Fund**

Estimated revenues for Fiscal Year 2002-03 are \$15.4 million, same as the Adopted Budget of \$15.4 million. Water sales are slightly higher than budget with investment earnings slightly lower than budget. Estimated expenditures are \$15.8 million (including capital projects of \$3.4 million), lower than the Adopted Budget of \$16.0 million. This fund will end the fiscal year with an estimated balance of \$2.9 million in addition to a reserve of \$5.4 million.

Water rates were incrementally increased by 3.0 percent over the past two years. The strategy to incrementally increase rates in order to mitigate larger increases in future years is resulting in staff proposing a 4.0 percent rate adjustment for Fiscal Year 2003-04, much lower than would otherwise be necessary considering the 25.7 percent increase in wholesale water cost from SFWD.

SFWD and Santa Clara Valley Water Department (SCVWD) have projected 15.9 percent and 8.0 percent rate increases, respectively, for Fiscal Year 2004-05. Staff will review rates for Fiscal Year 2004-05 to determine the impact of these

proposals. Lastly, the City intends to further expand water storage capacity (Graham Reservoir) which will require the City to issue debt that may impact future rates.

With the 4.0 percent rate increase, proposed revenues for Fiscal Year 2003-04 are \$16.0 million. Proposed operating expenditures for Fiscal Year 2003-04 total \$16.3 million (including capital projects of \$2.1 million). The projected ending balance for Fiscal Year 2003-04 is \$2.7 million, excluding reserves of \$5.8 million.

### **Wastewater Fund**

The current revenue estimate is \$10.1 million, \$198,000 below the budget of \$10.3 million. Wastewater service revenues and investment earnings are slightly lower than budgeted. Expenditures were originally budgeted, including capital projects of \$1.5 million, at \$12.9 million and are currently estimated at \$11.9 million, including capital projects of \$2.0 million. As the City's volume and proportionate share of wastewater treatment has declined, a credit of approximately \$400,000 for Fiscal Year 2002-03 wastewater treatment costs has been included in the estimates, thereby reducing the amount owed for the 2002-03 fiscal year. The fund is estimated to end the fiscal year with an ending balance of \$3.4 million and a reserve balance of \$8.7 million.

Staff proposes a minimum rate increase of 8.0 percent for Fiscal Year 2003-04. This rate increase is proposed to bring the operating revenues more in line with operating expenditures but does not fund a baseline of annual capital projects. A 28.0 percent rate increase would be needed to additionally fund a \$1.5 million base level of annual CIPs. Currently, capital projects are being funded from available balance and reserves, which are higher than required by policy. The recommended 8.0 percent essentially balances ongoing revenues and expenditures, but not annual CIPs. A larger rate increase can be deferred at this time as there is a sufficient available balance and reserve balance to fund annual CIPs. However, it will be necessary to continue to recommend significant rate increases in future years until this fund is brought into balance.

With this increase, Fiscal Year 2003-04 proposed revenues for this fund are \$10.5 million, and proposed operating expenditures (including capital projects of \$1.8 million) total \$13.1 million. The ending balance for Fiscal Year 2003-04 is projected at \$1.6 million with a reserve balance of \$8.4 million.

### **Solid Waste Management Fund**

For the second year in a row, no general rate increase was adopted for Fiscal Year 2002-03. Current City revenue estimates for Fiscal Year 2002-03 total \$8.2 million compared to the Adopted Budget of \$8.5 million. Revenues are lower than budget as a result of decreased refuse service demand related to increased commercial/industrial recycling and to the slower economy, reduced construction activity and higher office/commercial vacancy rates.

City expenditures are estimated at \$8.5 million, compared to the budget of \$8.8 million (excluding payment to Foothill of \$8.4 million). With the lower demand for refuse service, it is projected that disposal tonnage will be down from that budgeted for the current fiscal year. A credit is projected for the reduction in disposal costs, but will not be received until next fiscal year. The fund will end the fiscal year with an estimated balance of \$7.0 million and reserves of \$2.4 million.

In November 2002, Council authorized the extension of Foothill's agreement with the provision of adding automated refuse collection (to be phased in over three to four years) and recycling services. At that time, it was estimated that a 1.0 percent general rate increase would be necessary to recover the cost of providing carts for refuse and recycling services.

Staff is now proposing the City purchase the new carts for the automated recycling and refuse service, thereby eliminating the estimated 1.0 percent rate increase associated with these programs. The fund has an accumulated \$7.0 million balance that is available to fund the \$1.6 million purchase of carts.

There has been no general rate increase to refuse services in the past two years. Any increases provided by contract to Foothill have been absorbed by reducing the City's share of refuse revenues. The increases associated with Foothill's expenditures can no longer be absorbed and staff is recommending a 2.0 percent rate increase (versus the 3.0 percent originally proposed).

With a 2.0 percent general rate increase, revenues for Fiscal Year 2003-04 are proposed at \$8.0 million (excluding Foothill Disposal Company revenues of \$8.7 million), and proposed expenditures are \$9.7 million (including \$1.6 million for the purchase of carts and excluding payments to Foothill Disposal Company of \$8.7 million). The ending balance for Fiscal Year 2003-04 is projected at \$5.3 million with reserves of \$2.4 million.

- **Reserves**

As noted in the April 15, 2003 report, the compensated absence reserve will need to be supplemented by \$1.0 million in order to maintain the required policy or target balances during Fiscal Year 2003-04. This reserve is proposed to be augmented from the \$9.9 million remaining unallocated Fiscal Year 2001-02 General Operating Fund carryover.

In this Proposed Budget reserves are consistent with the City's Financial Policies that ensure reserves will be maintained at prudent levels.

- **Capital Improvement Projects, Capital Outlay and Equipment Replacement**

On May 27, 2003, the City Council adopted a Five-Year Capital Improvement Plan for Fiscal Years 2003-04 through 2007-08. The Proposed Budget includes funding for Fiscal Year 2003-04 projects in the amount of \$22.9 million. A detailed list of proposed capital projects is included in the Statistical Section.

Included in the Fiscal Year 2003-04 Proposed Budget is approximately \$91,000 for capital outlay expenditures in the General Operating Fund. An additional \$1.6 million of capital outlay is proposed for other funds (includes the \$1.6 million for new refuse and recycling carts) for a total of \$1.7 million.

In addition, approximately \$1.4 million is included in the Fiscal Year 2003-04 Proposed Budget for equipment replacement in accordance with the equipment replacement plan. The General Operating Fund, Special Funds and the Enterprise (Utility) Funds all contribute to the Equipment Replacement Fund.

Detailed lists of adopted capital outlay expenditures and adopted equipment replacement expenditures are included in the Statistical Section of this document.

The following sections describe the budget process, the basis of accounting utilized by the City of Mountain View and the budget amendment process.

## **THE BUDGET PROCESS**

The budget process begins in November of each year, when all City departments begin preparation of their budget proposals for the upcoming fiscal year.

Departments submit budget requests to the Budget Review Team (consisting of the Assistant City Manager and the Finance and Administrative Services Director) in late December. The Budget Review Team reviews these requests and submits recommendations to the City Manager.

The City Manager assesses the Budget Review Team's recommendations, meets with department heads for further discussion and typically submits recommendations to the City Council in the form of the Narrative Budget Report in May. Because of the significant challenges for Fiscal Year 2003-04, the Council received the City Manager's recommendations earlier than usual for the General Operating Fund on April 15, 2003. The other funds were presented to the City Council on May 6, 2003. The City Council is then able to review and discuss the recommendations and consider the budget prior to the presentation of the Proposed Budget.

The Proposed Budget is presented to the City Council in early June and considered at public hearings. The City's annual budget must be adopted prior to the beginning of each fiscal year (July 1).

## **FINANCIAL AND BUDGETARY POLICIES**

The City Council has established financial and budgetary policies which are reviewed and updated as necessary by the City Council. A comprehensive and consistent set of financial and budgetary policies provides a basis for sound financial planning, identifies appropriate directions for service level development, aids budgetary decision-making and serves as an overall framework to guide financial management and operations of the City.

A city's adoption of financial policies also promotes public confidence and increases the City's credibility in the eyes of bond rating agencies and potential investors. Such policies also provide the resources to react to potential financial emergencies in a prudent manner.

A summary of financial and budgetary policies is included in the Statistical Section of this document.

## **BUDGET AMENDMENT PROCESS**

Pursuant to financial policy, budgets are approved at the fund and department level (legal level of control) and may not be exceeded without City Council approval. Transfers and adjustments between funds, departments and capital projects must be submitted to the City Council for approval. The City Charter requires approval by five votes of the seven-member City Council to amend the budget.

Budget adjustments are also required for grants and reimbursed services that were not anticipated or budgeted. Council Resolution No. 15443 authorizes the Finance and Administrative Services Director and the City Manager to increase appropriations up to \$10,000 and \$36,000 (indexed for inflation), respectively, when outside grants or reimbursement revenues have been received to offset expenditures that were not anticipated or budgeted. If the grant or reimbursement is not within the City Manager's level of authorization, a request for an appropriation increase must be submitted to the City Council for approval (five votes required).

Department heads are responsible for managing expenditures within their budget and assuring funds are only expended for properly authorized City expenses. Department heads are also responsible for expending funds consistent with the goals and objectives approved by the City Council.

## **BASIS OF BUDGETING**

All Governmental Fund Type annual budgets are presented on a basis consistent with the general purpose financial statements prepared in accordance with generally accepted accounting principles. The accounting and financial reporting treatment applied to a fund is determined by the measurement focus of the fund.

Governmental Fund Types are accounted for using the modified accrual basis of accounting. Revenues are recorded as received, or accrued if they are both measurable and available to finance expenditures of the current period. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recorded when paid.

Proprietary Fund Types are accounted for using the accrual basis of accounting wherein revenues, unbilled or billed, are recognized in the accounting period in which they are earned, and expenses are recognized in the period liabilities are incurred.

## **COST ALLOCATION PLAN**

The City prepares an A-87, cost allocation plan, to identify the costs associated with providing certain services. These indirect charges, noted as General Fund Administration on the Fund Schedules, reimburse the General Operating Fund for services such as those provided by the City Attorney, Employee Services, Payroll, Accounts Payable and Information Services. The full cost allocation plan delineates the basis of allocation by department and can include total operating budget, the number of full-time equivalent positions per department, the number of work requests, square footage occupied, number of items processed, number of applicable devices, etc.

The City also has six Internal Service Funds that provide services to all major funds within the City and, in turn, charge these funds for the cost of providing services. Revenues received for providing services are noted as Interfund Service Charges on the Fund Schedules.

## DEBT ADMINISTRATION

As of June 30, 2003, the City will have various debt obligations outstanding. These obligations are comprised of (dollars in thousands):

<u>Entity</u>	<u>Principal Outstanding</u>
City of Mountain View	\$10,130
Shoreline Regional Park Community	\$55,025
Revitalization Authority	\$7,145
Special Assessment Debt	\$2,319

The City of Mountain View's 2001 debt was issued to refinance and call bonds on the City lease component of the 1992 Capital Improvement Financing Authority Revenue Bonds.

The Shoreline Regional Park Community (the Community) has three outstanding tax allocation bond issues. The 1993 Series A Bonds were issued to finance certain landfill closure projects and other public improvements within the Community. The 1996 Series A Bonds were issued to fund the acquisition of certain land from the City and to fund road, water, sewer and other public improvements along certain roadways. The 2001 Refunding Bonds were issued to refinance and call bonds on the 1992 Refunding Bonds.

The Revitalization Authority funds debt payments for the 1995 Refunding Certificates of Participation debt issuance. The Certificates were issued to refinance all of the outstanding Revitalization Authority, 1986 Tax Allocation Bonds issued for the reconstruction of Castro Street.

Special Assessment Debt consists of various issues to finance property owner improvements within the City.

## CALCULATION OF APPROPRIATIONS LIMIT

The City is required by the State Constitution, Article XIII B, to annually calculate the maximum amount of appropriations subject to limitation. This calculation is intended to limit the annual growth in tax revenues used to fund governmental expenditures in California. Article XIII B was changed with the passage of Proposition 111 on the June 1990 ballot. These changes permit greater flexibility with regard to annually calculating increases in the appropriations limit by allowing additional growth factors to be used. The factors permitting the maximum allowable increase in the appropriations limit are chosen for the calculation each fiscal year.

As final information was not available, the factors were previously estimated for Fiscal Year 2002-03. The amended calculation is detailed below in addition to the annual appropriations limit calculation for Fiscal Year 2003-04. As can be seen, the City is substantially under its appropriations limit.

Fiscal Year 2001-02 Limit	133,742,915
2001-02 Population Change in Santa Clara County	1.0125
2001-02 Change in Per Capita Income	<u>.9873</u>
Fiscal Year 2002-03 Amended Limit	133,694,935
Fiscal Year 2002-03 Budget Amount Subject to Limitation	<u>48,454,053</u>
Amount Under Appropriation Limit (Amended)	\$ <u>85,240,882</u>
Fiscal Year 2002-03 Limit	133,694,935
2002-03 Population Change in Santa Clara County	1.0179
2002-03 Change in Per Capita Personal Income	<u>.9769</u>
Fiscal Year 2003-04 Limit	132,944,440
Fiscal Year 2003-04 Budget Amount Subject to Limitation	<u>43,854,223</u>
Amount Under Appropriation Limit	\$ <u>89,090,217</u>



## **AWARDS**

For the tenth time, the Government Finance Officers Association of the United States and Canada (GFOA) presented an award for Distinguished Budget Presentation to the City of Mountain View for the Fiscal Year 2002-03 annual budget.

In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, an operations guide, a financial plan and a communications device.

In addition, for the seventeenth year, the California Society of Municipal Finance Officers (CSMFO) has presented the City with an award for Excellence in Operational Budgeting and the City's tenth award for Excellence in Public Communication for the Fiscal Year 2002-03 budget documents.

The awards are valid for a period of one year only. The Fiscal Year 2003-04 budget documents continue to conform to program requirements and will be submitted to GFOA and CSMFO to determine eligibility for another award.

## **CONCLUSION**

This budget has been one of the most, if not the most, difficult I have prepared. It negatively impacts service levels in a variety of areas and also impacts a number of existing staff. It was also developed during a period of significant fiscal instability and uncertainty.

The positive aspect of this difficult process is that it can result in a budget that is "responsibly balanced" and places the City in an effective position to deal with continued economic uncertainty. It provides a financial plan that does not transfer challenges into future years, when it is quite possible that new challenges will confront us.

Fiscal Year 2003-04 proposed General Fund revenues are \$71.9 million, and proposed expenditures are \$69.1 million. There is no revenue balance after reserving for the Economic Stabilization Contingency of \$2.7 million. General Fund revenues for Fiscal Year 2003-04 are projected to increase by 3.0 percent from estimated or a 1.2 percent decline from adopted revenues for Fiscal Year 2002-03. Significant department operating reductions have been made in order to balance the budget. A few unavoidable increases have been included. Potential State actions may require midyear budget reductions.

The Shoreline Golf Links operations are experiencing lower revenues as a result of the slowdown in the economy. Green fees and driving range fee increases are proposed for the 2003-04 fiscal year.

The Revitalization Authority has seen an increase in its tax increment revenues and, based on current information, it has sufficient financial capacity to support a bond issue for the new parking structure.

The Shoreline Regional Park Community continues to experience high commercial vacancy rates and it is projected unsecured property tax increment revenue will decline in the 2003-04 fiscal year.

The incremental rate increases of the past two years have assisted in allowing a modest rate recommendation of 4.0 percent for the 2003-04 fiscal year when wholesale water costs are projected to rise 25.7 percent for the Hetch-Hetchy water system.

The Wastewater Fund requires an 8.0 percent rate increase for Fiscal Year 2003-04 to almost balance ongoing revenues against expenditures. This will not fund a baseline level of annual capital maintenance projects. A continuation of rate increases in the future will be needed for revenues to fund expenditures and capital projects.

The Solid Waste Fund has not implemented a general rate increase for two years. With the implementation of automated refuse and recycling services, \$1.6 million for capital outlay is proposed and, in conjunction with the significant cost increases experienced by Foothill Disposal, has resulted in a proposed rate increase of 2.0 percent for Fiscal Year 2003-04.

Reserves are generally in good condition, and required supplemental allocations will be funded by the remaining unallocated Fiscal Year 2001-02 General Fund carryover balance.

The operating expenditure adjustments proposed in the Fiscal Year 2003-04 budget reflect the decline in revenue due to economic conditions and necessary actions taken in order to maintain the City's financial health into the future. The Five-Year Forecast for the General Operating Fund points out the need for careful expenditure management.

Many staff members have contributed significantly to the preparation of this report. All department heads have shown the type of teamwork, cooperative spirit and creativity necessary for this process. I would particularly like to thank Assistant City Manager Nadine Levin, Finance and Administrative Services Director Robert Locke, Assistant

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Finance and Administrative Services Director Patty Kong, Principal Financial Analysts Helen Ansted and Suzy Niederhofer, Senior Administrative Analyst Lori Topley and Administrative Analyst Raella Frazier for their assistance with the Operating Budget. I would also like to thank Administrative Services Manager Jim Williamson and Assistant Public Works Director—Public Services Jim Russell for their assistance with the capital outlay process and the Document Processing and Copy Center staff for their constant support in the preparation of this document.



Kevin C. Duggan  
City Manager

KCD/PK/9/BUD  
546-05-16-03L^

Enclosures

**TOTAL FUND REVENUES**

	AUDITED ACTUAL 2001-02	ADOPTED BUDGET 2002-03	ESTIMATED ACTUAL 2002-03	PROPOSED BUDGET 2003-04
GENERAL FUND	\$ 72,630,836	72,739,224	69,759,903	71,851,979
GF-SHORELINE GOLF LINKS	4,204,668	4,206,570	3,889,512	3,896,970
RESERVES	22,568,670	12,421,131	11,934,340	3,800,766
GAS TAX	1,908,489	1,617,540	1,418,019	1,388,780
CONVEYANCE TAX	5,042,564	2,533,540	2,413,947	1,914,940
BELOW MARKET HOUSING	357,258	5,070	900,597	30,540
TRANSIT ORIENTED DEVELOPMENT	2,011,372	0	88,511	476,140
REVITALIZATION AUTHORITY	2,781,760	2,848,460	2,730,601	3,076,190
PARKING DISTRICT & IN LIEU FEES	962,922	473,950	482,004	451,386
SUPPLEMENTAL LAW ENFCMNT	144,398	146,509	142,220	146,892
C.D.B.G.	3,459,619	1,446,000	975,326	1,386,980
LOCAL LAW ENFCMT BLOCK GRT	118,337	11,397	104,137	15,569
CABLE T.V.	754,257	750,500	626,184	603,000
SHORELINE COMMUNITY	29,517,138	21,440,998	23,154,219	22,155,516
STORM DRAIN CONSTRUCTION	92,534	47,104	69,697	40,938
PARK LAND DEDICATION	1,452,076	376,419	610,370	336,259
WATER	15,773,651	15,395,062	15,418,433	16,042,870
WASTEWATER	9,934,467	10,274,949	10,077,437	10,537,280
SOLID WASTE	8,924,898	8,513,957	8,151,760	8,040,160
EQUIPMENT MAINTENANCE	4,244,307	3,757,798	3,828,973	3,048,203
WORKERS COMPENSATION	1,564,012	1,441,787	1,407,199	2,397,140
UNEMPLOYMENT	74,865	73,412	72,172	69,270
LIABILITY	838,801	994,660	1,009,489	1,031,110
RETIREEES HEALTH	1,149,679	682,036	664,140	637,208
EMPLOYEE BENEFITS	81,403	77,445	76,444	77,758
<b>TOTAL</b>	<b>\$ 190,592,981</b>	<b>162,275,518</b>	<b>160,005,634</b>	<b>153,453,844</b>

**TOTAL FUND EXPENDITURES**

	AUDITED ACTUAL 2001-02	ADOPTED BUDGET 2002-03	ESTIMATED ACTUAL 2002-03	PROPOSED BUDGET 2003-04
GENERAL FUND	\$ 67,281,132	70,633,214	68,242,332	69,119,732
GF - SHORELINE GOLF LINKS	3,686,017	4,176,043	4,061,849	3,808,595
RESERVES	25,681,629	13,704,557	14,304,081	1,582,967
GAS TAX	2,061,920	2,093,290	2,093,290	1,324,683
CONVEYANCE TAX	3,845,000	2,814,000	2,814,000	3,203,282
BELOW MARKET HOUSING	255,180	25,000	252,220	25,000
TRANSIT ORIENTED DEVELOPMENT	1,275,000	0	0	1,097,782
REVITALIZATION AUTHORITY	1,647,479	4,976,242	4,960,975	1,904,100
PARKING DISTRICT & IN LIEU FEES	683,829	2,069,884	2,010,610	378,951
SUPPLEMENTAL LAW ENFCMNT	217,114	189,811	185,522	146,892
C.D.B.G.	3,459,619	1,339,000	999,734	1,336,980
LOCAL LAW ENFCMT BLOCK GRT	125,920	0	85,166	85,713
CABLE T.V.	804,461	795,500	679,510	603,000
SHORELINE COMMUNITY	19,598,008	16,981,123	16,884,305	27,055,981
STORM DRAIN CONSTRUCTION	26,000	26,000	61,000	26,218
PARK LAND DEDICATION	667,756	103,741	1,113,072	831,000
WATER	16,206,053	15,970,934	15,804,438	16,345,675
WASTEWATER	12,372,620	12,927,469	11,945,775	13,135,870
SOLID WASTE	7,344,386	8,831,806	8,522,696	9,740,029
EQUIPMENT MAINTENANCE	2,659,028	3,844,484	2,921,321	3,158,749
WORKERS COMPENSATION	1,444,996	1,774,080	1,564,686	1,658,000
UNEMPLOYMENT	21,385	67,250	49,598	67,250
LIABILITY	738,178	1,018,340	877,340	2,415,550
RETIREEES HEALTH	570,789	715,193	715,193	942,018
EMPLOYEE BENEFITS	56,131	112,090	65,738	114,770
<b>TOTAL</b>	<b>\$ 172,729,630</b>	<b>165,189,051</b>	<b>161,214,451</b>	<b>160,108,787</b>

## GENERAL OPERATING FUND REVENUES

<u>FISCAL YEAR</u>	<u>OPERATING REVENUE</u>	<u>% CHANGE FROM PRIOR YEAR</u>
1992-93	\$45,248,000	(1.4%)
1993-94	\$46,921,000	3.7%
1994-95	\$51,766,000	10.3%
1995-96	\$57,149,000	10.4%
1996-97	\$64,510,000	12.9%
1997-98	\$67,027,000	3.9%
1998-99	\$67,900,000	1.3%
1999-2000	\$74,712,000	10.0%
2000-01	\$82,708,000	10.7%
2001-02	\$72,623,000	(12.2%)
2002-03 *	\$69,760,000	(3.9%)
2003-04 **	\$71,852,000	3.0%

\* Estimated

\*\* Proposed

## GENERAL OPERATING FUND EXPENDITURES

<u>FISCAL YEAR</u>	<u>OPERATING EXPENDITURES</u> (1)	<u>% CHANGE FROM PRIOR YEAR</u>
1992-93	\$42,718,000	(3.6%)
1993-94	\$41,831,000	(2.1%)
1994-95	\$48,080,000	14.9%
1995-96	\$47,783,000	(0.6%)
1996-97	\$52,019,000	8.9%
1997-98	\$54,380,000	4.5%
1998-99	\$57,504,000	5.7%
1999-2000	\$61,054,000	6.2%
2000-01	\$61,265,000	0.3%
2001-02	\$65,259,000	6.5%
2002-03 *	\$68,283,000	4.6%
2003-04 **	\$69,120,000	1.2%

\* Estimated

\*\* Proposed

(1) Includes changes in encumbrances.



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and the underlying budgeting process through which the budget is implemented.*

*February 24, 2003*



*Joan Michaels*  
Chair, Budgeting & Financial Management

*[Signature]*  
Vice-Chair, Budgeting & Financial Management

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